



State Board of Equalization

News Release

Judy Chu, Ph.D.
Chair

4th District – Los Angeles

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BOE Chair Judy Chu Applauds Establishment of Commission to Address State Budget Deficit *Proposes Extension of Sales Tax to Selected Services*

State Board of Equalization Chair Judy Chu, Ph.D. today applauded the establishment of a bipartisan Commission on the 21st Century Economy to address California's chronic budget deficits and modernize the state's tax laws.

"I commend Governor Schwarzenegger and Assembly Speaker Bass for taking this step. The state must modernize its tax structure if we are to close the multibillion dollar deficit facing the state."

Dr. Chu reiterated the proposal she made to legislative leaders earlier this year to extend the sales tax to selected services. Dr. Chu's proposal would raise up to \$8.7 billion annually for the state by extending the state sales tax rate of 5% to services to a variety of business services, such as employment agencies and advertising; entertainment services such as gambling, sporting events and movies; as well as construction and auto repair services.

The sales tax was first enacted in 1933 and is imposed on the retail sale of most tangible goods, such as electronic equipment, clothing, furniture and automobiles. In past decades, the service sector of the state's economy has grown more quickly than its manufacturing base, and a greater proportion of consumer spending is not subject to the sales tax.

California presently taxes 23 services, according to a 2004 survey by the Federation of Tax Administrators. Most other large industrial states tax substantially more services, for example: Texas taxes 81, Connecticut 80, Wisconsin 74, Ohio 68, Florida 64, New York 56, New Jersey 55, and Pennsylvania 55.

"Extending the sales tax to services would modernize our sales tax base to better reflect commerce in the 21st century, and stabilize state General Fund revenues, which are prone to cyclical fluctuations," Dr. Chu stated. "Ongoing state programs in support of our schools, public health and safety realistically cannot be scaled back within a single fiscal year to generate the savings necessary to bring the budget into balance."

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